

Message Text

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E.O. 11652: GDS

TAGZC JA, US, OVIP (VANCE, CYRUS)

SUBJECT: BRIEFING BOOK FOR SECRETARY'S VISIT: U.S.-JAPAN
ECONOMIC RELATIONSHIP

1. THE LONDON ECONOMIC SUMMIT OF MAY MARKED THE FULL SCALE EMERGENCE OF JAPAN AS AN ACTIVE MEMBER OF THE CLUB OF INDUSTRIALIZED DEMOCRACIES. PRIME MINISTER FUKUDA, MORE THAN HIS PREDECESSORS, ASSUMED A FORWARD POSTURE AT LONDON AND IS REGARDED AT HOME AS A MAN OF INTERNATIONAL STATURE ON ECONOMIC MATTERS. WE SHOULD STRIVE TO REINFORCE THE COMMITMENT OF FUKUDA AND OF JAPAN TO THE SPIRIT OF THE LONDON SUMMIT, CONTINUALLY REMINDING JAPAN OF ITS ROLE AS A LEADING INDUSTRIAL POWER.

2. JAPAN IS PARTICULARLY SENSITIVE TO COMPLAINTS ON BILATERAL TRADE ISSUES FROM VARIOUS SOURCES IN THE UNITED STATES. THEY ARE CONCERNED THAT A WAVE OF PROTECTIONISM MAY BE BUILDING UP IN THE U.S., THAT OUR RESTRICTIONS ON COLOR TV SETS MIGHT BE FOLLOWED BY ACTIONS ON STEEL OR AUTOS. OUR BEST RESPONSE TO THESE JAPANESE CONCERNS IS TO STRESS THAT THOSE IN THE UNITED STATES WHO OPPOSE PROTECTIONIST PRESSURES FIND IT DIFFICULT TO CARRY THE DAY WHEN SOME AMERICANS
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CAN CONTEND THAT JAPAN IS NOT BEARING ITS FULL WEIGHT IN WORLD ECONOMIC AFFAIRS AND JAPAN CONTINUES TO BUILD UP LARGE CURRENT ACCOUNT AND TRADE SURPLUSES. THESE SURPLUSES EXACERBATE THE DIFFICULTY WITH WHICH OTHER OIL IMPORTING NATIONS CAN PAY THEIR OIL BILL. FLUCTUATIONS IN JAPANESE DEMAND FOR RAW MATERIALS PROFOUNDLY AFFECT THE INCOMES OF MANY LDC'S ESPECIALLY

IN SOUTHEAST ASIA. FURTHERMORE, RAPID RISES IN JAPANESE EXPORTS OF CERTAIN COMMODITIES TO CERTAIN MARKETS HAVE CONTRIBUTED TO THE SURGE TOWARDS PROTECTIONISM IN THE U.S. AND ELSEWHERE.

3. JAPAN IS ACUTELY AWARE OF THE COMMITMENTS IT MADE AT LONDON TO TAKE STEPS TO STIMULATE ITS DOMESTIC ECONOMY AND PLAY ITS PART IN HELPING OTHERS WITH UNFAVORABLE TRADE BALANCES. THEY WILL BE HEAVILY INVOLVED IN CONSIDERING NEW POLICIES JUST AT THE TIME OF THE SECRETARY'S VISIT.

4. JAPANESE LEADERS ARE ACUTELY AWARE THAT JAPAN HAS THE MOST TO LOSE FROM A WORLD-WIDE RETREAT INTO AN ILLIBERAL TRADING SYSTEM. THE JAPANESE HAVE TAKEN STEPS IN THE PAST FEW YEARS TO RELAX FOREIGN TRADE AND CAPITAL MOVEMENT CONTROLS. WE WELCOME THESE MEASURES, BUT WE SHOULD EMPHASIZE THAT JAPAN NOT ONLY SHOULD BE, BUT MUST BE PERCEIVED TO BE AN ECONOMY LIBERAL IN ITS ATTITUDE TOWARDS IMPORTS, FREE OF MANIPULATING EXCHANGE RATES IN FAVOR OF ITS EXPORTS, GENEROUS IN ITS AID POLICIES AND FULLY AWARE OF THE ECONOMIC AND POLITICAL DANGERS OF FLOODING MARKETS WITH UNDERPRICED GOODS.

5. AT THE SAME TIME, OF COURSE, WE SHOULD REASSURE
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THE JAPANESE THAT WE WILL TACKLE OUR OWN INFLATION AND STRUCTURAL ADJUSTMENT PROBLEMS WITH RENEWED VIGOR. THE EFFORT MUST BE A COOPERATIVE ONE IN WHICH EVERY PARTNER CONTRIBUTES AN EQUITABLE SHARE.

6. WE LOOK FORWARD TO A THOROUGH REVIEW OF U.S.- JAPAN RELATIONS IN THE CONTEXT OF OUR MUTUAL GLOBAL CONCERNS DURING THE FIRST SUB-CABINET CONSULTATIONS MEETINGS SCHEDULED TO BE HELD THE WEEK OF SEPTEMBER 12. UNDER SECRETARY COOPER WILL HEAD THE U.S. DELEGATION.
MANSFIELD

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